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U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

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One Year of War.

THE war has now lasted one year, the war expenditures have equalled the most extravagant predictions, the fighting has been continuous and the casualties appalling, but the results signify practically nothing as to when the conflict will end. There are no signs that either side is running out of men or money, or that the people of any of the warring countries are weakening in resolution or confidence. Apparently all believe themselves to be fighting for the preservation and security of their national life. From this point of view, the entire situation seems to be the result of a colossal and hopeless misunderstanding; not only a collapse of civilization, but a failure to comprehend the essential unity and reciprocity of human interests the world over.

The developments of the war itself have shown the futility of annexing hostile populations; they cannot be dispossessed of the territory, or compelled to be loyal citizens, and while they swell the volume of domestic trade, and pay taxes, they cost at least as much as they contribute. Men do their best work, make the best progress, and are worth the most to their neighbors and the world, when they live under congenial conditions, calculated to bring out their full powers, and these conditions are to be found in an atmosphere of liberty. All the warring peoples claim to be contending for this principle against enemies who would subvert it; such is the perversity of human suspicions and antagonisms.

If all the responsible ministries had known as much a year ago as they know now, it is safe to say that the peace would not have been broken, and if they could know now as much as they will a year hence, it is probable that a peace conference would not be long deferred.

Expenditures and Finance.

Excluding Italy, which came into the war at the end of the tenth month, and for which few figures of expenditures or loans are available, the war loans of the combatants have aggregated approximately $15,500,000,000, and this about represents the governmental expenditures for the year. The total indebtedness of these countries at the outbreak of the war, including the debts of the several states of the German Empire, was approximately $23,000,000,000, but a large portion, perhaps one-half, represented investments in railways and other revenue-producing utilities, so that it is safe to say that the debt which must be carried by taxation has been more than doubled.

The cash expenditures of Great Britain are undoubtedly larger than those of any other country, as service in the army and navy is voluntary and the pay and allowances are much higher than in the continental countries. In March the extraordinary expenditures of Great Britain were stated to be at the rate of about $10,000,000 per day, but the Chancellor of the Exchequer recently stated that they had reached $15,000,000 per day and were still rising.

The expenditures of the German Government are probably next to those of Great Britain. The Government has realized $3,490,000,000 by means of two loans, which it is understood will carry the war into the coming fall, but as its expenditures have been growing, it is probable that they are now as much as $10,000,000 per day. Altogether, the estimate of $50,000,000 per day for the outlays of all the governments is seen not to be improbable.

The London Economist gives the rate of daily pay for a private soldier as one shilling two pence for Great Britain, one-half pence for France and two and one-half pence for Germany.

The loans, deposits, note circulation and gold holdings of five of the principal banks of Europe, as shown by their last statements before the outbreak of the war and by their statements nearest to February 1st and July 1st, 1915, are given below:

BANK OF ENGLAND:

	Aug. 1, 1914	Feb. 1, 1915	July 1, 1915
Gold Holdings.	$ 190,000,000	$ 335,000,000	$ 260,000,000
(Exc. Bills).		112,500,000	142,500,000
Loans	290,000,000	645,000,000	940,000,000
Deposits	335,000,000	810,000,000	1,035,000,000
Circulation ...	145,000,000	170,000,000	175,000,000
Exchequer Bills		175,000,000	240,000,000

BANK OF FRANCE:

	Aug. 1, 1914	Feb. 1, 1915	July 1, 1915
Gold Holdings.	$ 825,000,000	$ 845,000,000	$ 785,000,000
Loans	640,000,000	190,000,000	625,000,000
Deposits	260,000,000	475,000,000	485,000,000
Circulation	1,335,000,000	2,090,000,000	2,440,000,000

BANK OF GERMANY:

	Aug. 1, 1914	Feb. 1, 1915	July 1, 1915
Gold Holdings.	$ 420,000,000	$ 540,000,000	$ 590,000,000
Loans	200,000,000	950,000,000	1,050,000,000
Deposits	235,000,000	360,000,000	400,000,000
Circulation	470,000,000	1,160,000,000	1,300,000,000

BANK OF RUSSIA:

	Aug. 1, 1914	Feb. 1, 1915	July 1, 1915
Gold Holdings	$ 800,000,000	$ 775,000,000	$ 785,000,000
Loans	600,000,000	540,000,000	1,350,000,000
Deposits	420,000,000	405,000,000	750,000,000
Circulation	730,000,000	1,500,000,000	1,750,000,000

BANK OF THE NETHERLANDS:

	Aug. 1, 1914	Feb. 1, 1915	July 1, 1915
Gold Holdings	$ 45,000,000	$ 98,000,000	$ 144,000,000
Loans and Discounts	60,000,000	115,000,000	80,000,000
Deposits	1,975,000	11,500,000	22,000,000
Circulation	125,000,000	205,000,000	200,000,000

The government of Switzerland, which placed a loan of $15,000,000 in the United States some months ago, has now announced another $20,000,000 loan, to provide for the extraordinary expenses of mobilization.

Effect Upon Industry and Trade.

The effect of the war upon normal industry in the warring countries, particularly on the continent, where so many men have been called to the colors, is, of course, paralyzing. Constructive work, except for the enlargement of the war industries, is almost suspended and manufacture in many lines is greatly reduced. General trade is seriously depressed, and the professional classes suffer severely, but agriculture is carried on by the women, children and old men with remarkably successful results.

International trade is interrupted and disorganized. Germany and Austria-Hungary are almost isolated, and communication with Russia is difficult. The German merchant fleets, second only to those of Great Britain, are out of commission. About 1,000,000 tons of shipping have been destroyed, and although this is only two per cent. of the total, the entire loss to the commercial service, including ships interned and commandeered for war service, is approximately fifteen per cent. Add to this the loss of time because of mine fields, circuitous routes, delays in port and disorganization of service, and the total efficiency is not seventy-five per cent. of normal. Freight charges, according to C. K. Hobson, in the *London Economic Journal* for June, have been about two and one-half times normal.

The countries dependent upon Great Britain and Western Europe for capital are practically at a standstill in constructive work, and their international and domestic trade has declined. The bank clearings of Canada have been about twenty per cent. lower than in the corresponding months of last year.

Great Britain, under the circumstances, has maintained her great foreign trade very well. Her exports of domestic production in the month of June amounted to $166,000,000, which compares with $199,000,000 in June, 1914, or a falling off of about 16½ per cent. Moreover, the following record shows a gain, notwithstanding the increasing absorption of labor by the war industries: During the eleven months to June 30, 1915, exports fell off 34 per cent., during the six months to same date, 28 per cent., during the last three months, 18.7 per cent., and in June as above.

The British imports in June were $167,500,000, not including government imports, and the *Statist* estimates that allowing for loans to Allies, colonies and other foreign countries, and taking credit for the earnings of British capital abroad, the balance of payments against the country is running at the rate of between $2,000,000,000 and $2,500,000,000 per year. This is the amount, according to the *Statist*, for which London must find means of payment by selling out investments or borrowing abroad.

The demoralization of international trade, and withdrawal of men from industry, has caused a rise in the costs of production and in living expenses, particularly in the warring countries. The London *Statist's* table of commodity prices in London shows that in June, 1915, foodstuffs at wholesale were 41.5 per cent. higher than in June, 1914, and its list of materials for manufacture averaged 24.7 higher. Wages are higher.

All of the warring governments, and particularly Germany, have adopted extraordinary measures for the control of production and consumption and the regulation of business. The London *Statist* says of the situation in England:

"We are limiting the profits which capitalists may make during the War. We are suspending all the rights and privileges acquired by the trade unions during the past century. And, in addition, we are taking to the hands of the Government the greater part of the whole trade of the country. We have given protection to the banks, the insurance companies, the Stock Exchange, the acceptors of bills, and so on. We have taken the wheat trade of India into our hands. We have taken the buying of food from Argentina also into our hands. In fact, we have adopted State Socialism to so large an extent that it is hardly an exaggeration to say that England at the present moment is practising Socialism. Does anybody seriously believe that this great experiment will not arouse ardent hopes and poignant fears, and that when the time comes for determining what is to be our future policy we shall have before us a period of serious disagreement?"

Second British War Loan.

The fiscal year of the British Government ends March 31st, and for that year last past the deficit over ordinary income was $1,670,000,000, which was nearly covered by the first war loan of $1,655,000,000. For the fiscal year 1915-1916, it is estimated that on the basis of present expenditures and present taxation the deficit will be about $4,500,000,000. In addition to the first regular war loan the Treasury has received the net amount of $167,000,000 from the sale of five-year Exchequer bonds, and $1,175,000,000 from Treasury bills, running three to nine months, this being the amount outstanding at the date of the Chancellor's speech presenting the new war loan, June 21st.

The second war loan is the greatest financial transaction of history. Under the terms it is payable in ten years and due in thirty years, issued at par, with interest at 4½ per cent., payable semi-annually, and carries conversion privileges for the first loan and consols, which have been previously explained. It also carries an agreement that if any later loan is offered at a higher rate of interest, this loan will have the privilege of conversion into it. Payments are made in semi-monthly installments, to be completed October 26th. Subscriptions in amounts of £100 or over were closed on

July 10th, but smaller subscriptions are still received through the post-offices.

The rate of interest is higher than on any British government loan since the Napoleonic wars, and with the conversion privileges was accepted by the public as very attractive. The amount of new money subscribed in less than three weeks was approximately $3,000,000,000, a sum greater than the public debt of the United States at the close of the Civil War. The nearest approach to this achievement was made by Germany in subscribing $2,250,000,000 for its second war loan.

Including the proceeds of Exchequer bonds, Treasury bills and the new loan, the British Treasury will have raised approximately $4,342,000,000 applicable to the estimated deficit of $4,500,000,000 to March 31, 1916. If, however, the Treasury bills are paid as they fall due without issuing more, a new loan will be required about January 1st next. Including the Treasury bills, the total debt of the United Kingdom after the new loan is issued will be in round numbers, $9,000,000,000.

London Money Market.

The British money market throughout the latter part of June and all of July was under the influence of the new war loan, and it may be said that not until now have the enormous borrowings for the war shown anything like the influence that they might be expected to exert. The great amount of floating capital which is always available on the London market, together with the amount that London has withdrawn from other countries since the outbreak of the war, and the amount of credit provided by the joint action of the Bank of England and the Treasury at the beginning of the war, has made money for short use very cheap.

The demand for credit by parties desiring to subscribe for the new loan has effected a decided change, rates for fine trade bills rising to 4¾ to 5 per cent., and for four and six months to 5½ and 6 per cent., with some talk of raising the Bank of England rate, which has stood at 5 per cent. since August 8, 1914. As the payments upon the loan will be made from time to time until October 26th, this influence will continue to be felt, although the Treasury will keep the funds, so far as practicable, in the banks that are drawn upon for the payments, thus making the smallest possible disturbance.

The banking system of Great Britain, consisting as it does of less than one hundred corporations, with over eight thousand branch offices, and with the Bank of England at the center, backed whenever necessary by the power of the government, is admirably adapted to handle a situation like this—and the systems of all the European countries are like it in this respect. The sums subscribed to the loan are passed over to the credit of the government, and as drawn upon by the Treasury will pass to the credit of private firms and individuals, with an inconsequential movement of cash. When the government's credit is exhausted another loan will be in order, and it may look to the casual observer as though this revolving use of credit might go on forever. But when the next loan is offered, unless the banks have been cleared of all loans to the public made to facilitate subscriptions to this one, it is evident that credits will be piled upon credits. The only way this can be avoided is by such rigid economy on the part of the British people as will enable them to clear up the borrowings for one loan before another loan appears.

It is reported that the banks took about $1,000,000,000 of the loan upon their own account, two of the leading institutions subscribing for £21,000,000 each, and industrial corporations generally took round amounts. These holdings, together with the amounts pledged with banks to secure subscription loans, must be taken into account in considering the future of the money market, even after the war is over. The final distribution will not have taken place until these bonds are sold to, and paid for by, parties who desire to keep them as an investment. Until then they must be regarded as on the market and in competition with any new applications for capital that may be made.

The offering of the new loan, with its high rate of interest and the privilege of conversion into any new loan bearing a higher rate, naturally has had a depressing influence upon the values of other securities which do not carry either that rate or that privilege. One direct effect was to increase the sales of American securities by English holders, the insurance for shipments by one steamer being $10,000,000.

Increased Taxation.

The new British taxes which were imposed last Fall are yielding at the rate of about $300,000,000 per year, but the interest on the new debt and the amount required for pensions will somewhat exceed this sum. The parliamentary debates show a strong sentiment for further taxation, and the bankers of London have united in urgent representations that more money should be raised in this manner. The labor representatives in Parliament have indicated an intention to oppose any new taxes that will cause a further increase in the cost of living, but this was before the government had taken control of the war industries, and the general public is coming to an understanding of the enormous task that England has in hand in providing funds for not only her own war operations, but those of her Allies. Every new nation that joins the Allies, although furnishing reinforcements for the armies, looks to England for money. The Chancellor of the Exchequer has stated that the engagements to the Allies and colonies for the present fiscal year will amount to $1,000,000,000, and this did not include the promises to Italy, the extent of which have not been made public.

The situation was succinctly described by Mr. Collins, in the Parliamentary debate, as follows:

> "At the outbreak of war we had 12,000,000 men working in civil occupations. To-day over 6,000,000 of those 12,000,000 men are employed by the State, either in the Army or the Navy, or in making munitions of war. In peace time these 6,000,000 men support themselves by their labour. To-day they have to be supported either by the labour of the remaining 6,000,000 or by taxation, or by voluntary loans to the State."

The government has indicated that a new scheme of taxation is in preparation, and while further addi-

tions to the income taxes will no doubt be an important feature, it is expected that there will be a long list of new customs duties, bearing heavily upon luxuries, and designed to serve the double end of raising revenue and reducing importations. The last result is desired to help remedy the adverse exchanges.

One of the most eminent of English statesmen, who won distinction as Chancellor of the Exchequer, Mr. Gladstone, held decidedly to the opinion that the best time to raise money for carrying on a war was while the war was in progress. Writing about the Crimean War, he said:

"The system of raising funds necessary for wars, practises wholesale, systematic and continual deception upon the people. The people do not really know what they are doing. The consequences are adjourned into a far future."

And, again, going more deeply into the subject, he wrote:

"The general question of loans *versus* taxes for war purposes is one of the utmost interest, but one that I have never seen worked out in print; but assuming as data the established principles of our financial system, and by no means denying the necessity of Loans, I have not the least doubt that it is for the interest of labour, as opposed to capital, that as large a share as possible of war expenditure should be defrayed from taxes. When war breaks out, the wages of labour on the whole have a tendency to rise and the labour of the country is well able to bear some augmentation of taxes. The sums added to public expenditure are likely at the outset, and for some time, to be larger than the sums which are drawn from commerce. When war ends, on the contrary, a great mass of persons are dismissed from public employment, and, flooding the labour market, reduce the rate of wages. But again, when war comes, it is quite certain that a large share of the war taxes will be laid upon property, and that in war property will bear a larger share of our total taxation than in peace. From this it seems to follow at once, that up to the point at which endurance is practicable, payment by war taxes rather than by taxes in peace, is for the interest of the people at large."

The view held by Mr. Gladstone is confirmed by the situation in England now. Although the cost of living is higher than usual, wages are also higher, and employment is very full, with much overtime. Women, boys and girls are employed to an exceptional extent, so that all told the earnings of the population are unusually large. Furthermore, the occasion for taxation is present and understood, and at a time when kinsmen and friends are laying down their lives for the common cause, the argument for minor sacrifices is very strong.

Necessity for Economy.

Accompanying the demand for new taxation there is a call for economy—in public and in private affairs. Lord Middleton, last month, offering a resolution declaring for an immediate reduction of the civil expenditures of the government, made a speech upon the growth of public expenditures that attracted wide comment in England and deserves a reading in the United States, where the same tendencies are seen. He said that in ten years the imperial expenditures had gone up from $710,000,000 per annum to $1,035,000,000, and local expenditures from $435,000,000 to $670,000,000. A report made a few days before the war broke out showed that in the last eight years 5,387 permanent officials and 10,000 temporary civil servants had been appointed in connection with various acts of Parliament. He said that twenty years ago the cost of the Home Office was $590,000; it was now $1,035,000; the cost of the Board of Trade had risen from $890,000 to $2,245,000, of the Local Government Board from $905,000 to $1,355,000, and of the Board of Agriculture from $515,000 to $1,705,000; the total from $2,900,000 to $6,640,000. In 1897 the Home Office had 56 inspectors of factories and now they had 223; they would only need to inspect 440 persons in a factory in a week, which would enable them to give five minutes personal conversation to every man, woman and child. While the postal service, as a whole, returned a surplus, the telegraph service was run at a loss; every six-penny telegram cost eleven pence to transmit, and press telegrams were handled at a minimum loss of $1,000,000 per year. In fact he declared that there was no end of waste in the government service, and urged that the government now should set an example in economy.

A determined effort is being made, headed by the government and leading men of the country, to bring home to the people the necessity for a reduction in personal and household expenses. The appeal is for the people of England, of all incomes, to get down to the simplest possible life, save their incomes for the war loans, reduce the importation of foreign goods, and release labor either for the public defense or for the manufacture of goods for export; in short, to make England as nearly as may be self-supporting, and meet the expenses of the war, so far as possible, from current income. In some instances employers are encouraging employes to save for the war loans by adding a bonus to savings applied to this purpose. It is urged that the enormous amount of untilled land in England, in parks and private grounds, be brought under cultivation, that the importation of foodstuffs be reduced, in this respect following the course that Germany has been obliged by circumstances to adopt. Acknowledgment is made, both in Germany and England, that in this respect at least perhaps the sea blockade has done Germany a service. The Prime Minister, in a public speech, mentioned tea, tobacco, wine, sugar and petrol as articles figuring largely in the imports, the consumption of which might be reduced and suggested that there were many others.

The London *Statist*, discussing the movement to promote saving, says that, roughly speaking, the annual expenditures of the British people, excluding those for capital purposes, amount to about $210 per head of the population, and are more than twice as great as they were two generations ago and five times as great as they were three generations ago. It might have added that most of the necessaries, notably wheat, cotton and sugar, are cheaper than they were 100 years ago. Confidence is expressed that a large part of the war expenditures can be covered by taxation and savings.

Economy for the United States.

It would be a fortunate thing if knowledge of the destruction and waste going on in Europe would prompt the people of other countries, including the United States, to make a study of practical economy, and of its benefits, not only to the individual in saving something for a rainy day, but to society as a whole in providing capital for industrial advancement. In these days of growing social consciousness perhaps not enough emphasis is laid upon the last named results of saving. No great undertaking, the purpose of which is to increase the supply of articles of common consumption, can be carried out without capital, and capital is provided by

savings. If the war has checked the progress of the world, as we know it has, savings, wherever made, will help to counteract the effects.

There is a common but mistaken idea that people of wealth render a public service by spending money in extravagant living. This is on the theory that they are "distributing" it, but they would distribute it just as effectually if they paid it out of any industrial investment, and in that event instead of there being nothing to show for the disbursement there would be a permanent addition to the productive wealth of the country. Thus, if $10,000 is spent upon a dinner, there is, indeed, a "distribution" for music, flowers, service, etc., but if the same amount is spent for draining a swamp a similar "distribution" occurs, and there is also a permanent increase in the food supply of the community.

The people of this country are far more able than any other people to increase their savings, first, because their income is always much larger, and again, because they are now suffering less from the war than any other people. This country, therefore, has it in its power to do more than any other to repair the ravages and make good the losses of the war.

There are other reasons especially applicable to ourselves for encouraging saving at this time. There is now afforded the best opportunity this country will ever have to buy back its own securities from foreign owners, thus coming into more complete ownership of the properties they represent, and there is also the opportunity to make the United States a creditor nation by means of investments in other countries, particularly the developing countries of this hemisphere. The people of these countries are now, more than ever, expectant and hopeful that we will become interested with them, and relations may be established that will become of great mutual value. Furthermore, when the war is over, there will be extraordinary opportunities for the use of American capital in other parts of the world, not only for direct profit, but in ways that will create permanent outlets for American goods.

It would be a fine thing for every citizen of this country to save money enough to provide in comfort for his old age; that is an admirable purpose in itself, but when it is considered that in so doing he would not only protect himself but help to place his country in the forefront of the world's industrial progress, another motive is added, worthy in itself of a national propaganda.

Foreign Trade of United States.

The problem presented by our accruing balances in the foreign trade grows no easier as the months pass, the excess of exports over imports in the month of June being $157,000,000, although the movement of grain and cotton was down to low ebb. For the fiscal year ended June 30th, the net credit balance on merchandise account was $1,094,422,792, with exports of $2,768,643,432 and imports of $1,674,220,740. Exports were $404,000,000 above the previous year's record and imports $219,700,000 below.

The losses of gold which occurred in the first two months of the fiscal year were more than recouped, exports for the year aggregating $146,224,148 and imports, $171,568,755.

The abnormal character of our foreign trade is further shown by the following summary for May, the latest month for which classified figures are available:

IMPORTS.

Free and dutiable:	May, 1914.	May, 1915.
Crude materials for use in manufacturing..	$62,978,828	$57,274,028
Foodstuffs in crude condition and food animals	19,347,714	15,380,775
Foodstuffs partly or wholly manufactured..	23,179,797	30,481,992
Manufactures for further use in manufacturing	24,806,492	18,051,376
Manufactures ready for consumption......	32,932,144	20,434,221
Miscellaneous	1,037,040	662,364
Total imports of merchandise..........	$164,281,515	$142,284,851

EXPORTS.

Domestic:	May, 1914.	May, 1915.
Crude materials for use in manufacturing..	$37,816,086	$44,337,493
Foodstuffs in crude condition and food animals	10,078,917	38,752,970
Foodstuffs partly or wholly manufactured..	20,117,749	40,828,391
Manufactures for further use in manufacturing	30,431,865	36,872,883
Manufactures ready for consumption......	58,563,202	97,546,042
Miscellaneous	484,799	10,998,443
Total domestic	$157,492,718	$269,336,222
Foreign goods	4,239,901	4,881,920
Total exports	$161,732,619	$274,218,142

Foreign Exchange.

The foreign exchange situation has been quiet during the past month. The sales of American securities by English holders desiring to subscribe for the new British loan steadied the market for sterling, and francs were helped by the Rothschild loan and pending negotiations with Brown Brothers for another French loan, in the form of acceptances. The Rothschild loan is based upon a pledge of Pennsylvania and St. Paul Railway bonds, and has produced about $43,000,000. Now that the British loan is out of the way, it is understood that London will address itself to the task of creating a credit in New York sufficient to meet the heavy payments that will be required in the Fall, upon war contracts and for the usual supplies of cotton and other products. Heretofore, the ruling rates for money in London have been so low as to embarrass the government in negotiations here, as the British public might not understand the necessity for borrowing abroad when money could be had at lower rates at home; now, however, money is established there on a higher basis.

It is apparent that the United States is vitally interested in this exchange problem. There is one thing that is even more important to the cotton and wheat producers than free access to foreign markets, and that is facilities by which foreign purchasers can make payment. The "freedom of the seas" will avail us little without these.

The magnitude of the problem confronting Great Britain is shown by the figures of her foreign trade, as given above. Of course all of that balance does not come to the United States, and whenever it is practicable to divert purchases to the colonies or Allies, where payments can be handled more conveniently, it will naturally be done. There is a prospect for competition in the wheat business this year; Canada has a large crop maturing and if the Dardanelles are opened the Russian surplus will be taken. There remain the commodities that can be

had only in the United States, but much as they may be wanted they evidently cannot be taken unless they can be paid for.

Serious as the situation undoubtedly is, it would be more serious to any other country under the same circumstances, for no other country has such a variety and amount of convertible assets as Great Britain. Her eggs are not all in one basket by any means. Aside from her wealth in fixed property at home, Great Britain held, at the outbreak of the war, securities based upon properties in other parts of the world valued at $20,000,000,000, and of these, according to competent estimate, she had parted with not to exceed $500,000,000 up to June last.

Great Britain is still abundantly strong in her general credit, but besides that she has these transferable assets, outside the area of the war, and, although they are private property, there should be a way to use them if necessary to support public credit in an emergency like this.

The gold resources of the Allies are being strengthened by the contributions of the French people, who are responding heartily to an appeal for them to exchange their coin for Bank of France notes. This idea was developed in Germany early in the war, and has resulted in accessions to the store of the Reichsbank aggregating $170,000,000. The Bank of France has gained about $44,000,000 in this manner since the effort began in May.

American Bond Market.

The English War Loan threw its colossal shadow over the American bond market throughout the month of July. There is no doubt that a very great volume of American securities of the highest grade, which have been held by English investors for many years, were reluctantly shipped to this country and sold in order to provide funds with which to meet the initial payments on the War Loan. The competition from these securities naturally caused a general downward revision of bond prices. As a result, the average price on 40 bonds as reported in the New York *Times* declined from 82.53 on July 1, to 82.14 on July 15, and on July 27 stood at 82.03. The average price of the same bonds on July 27, 1914, was 84.12. The most encouraging feature of the market has been that investment demand has been sufficiently keen to absorb foreign sales at such comparatively small recessions in price.

The volume of transactions on the Exchange for the month up to July 26 was $40,247,500, as against $38,485,600 for the similar period of July, 1914, so that the total transactions for the year to July 26, 1915, amounted to $437,014,200, as against $411,834,600 in 1914. In point of activity, the New York Central Convertible 6's and United States Steel Sinking Fund 5's were the most prominent issues, with total transactions for the month of $2,235,500 and $1,925,000, respectively.

The sale of $45,000,000 Government of the Dominion of Canada One and Two-Year 5% Gold Notes was the most important new offering made in the American market during the month. Participants in the underwriting syndicate were allowed to withdraw a certain proportion of their respective interests, and when the subscription books were closed (very shortly after their opening) it was found that the balance available for allotment had been subscribed for approximately three times over. The hearty reception given to this issue was due to several factors, among which may be named the large supply of funds undoubtedly available at the present time for investment in satisfactory short-term securities, the fact that Canada is bound to the United States by so many ties of neighborly interest, and the possibility that the privilege of converting the notes during their life into 5% long term bonds of the Dominion may prove profitable.

Outlook for Wheat.

The crops are nearing maturity, and for most of them the promise is exceptionally good. Although there has been damage to winter wheat by bad weather in harvest, there is an important increase in the acreage, and the spring wheat crop is unusually promising. If present conditions are maintained, the total yield is likely to be 100,000,000 bushels above last year's record crop.

The winter wheat crop is moving very slowly, partly because of bad weather and partly because the drop in price is not acceptable to the producers. The outlook for high prices is not so good as a year ago. Although the stocks in the United States and Canada are practically exhausted, there is believed to be more wheat available for the importing countries than last year. Germany took large supplies in July last year, but will not be a factor in the demand this year. Belgium, strange as it may seem, promises to have an unusually good crop this year, special efforts having been made to put the country on a self-supporting basis in this respect. Last year the importing countries, exclusive of Germany and Austria, absorbed about 590,000,000 bushels, and conditions in the United States and Canada indicate a surplus of that much, with Argentina, Australia, India and possibly Russia yet to hear from. The effect of this showing has been to make European buyers very indifferent and sales for export have been small as yet. On the other hand, the American farmer has had a taste of good prices, is able to play in a waiting game, and it is thought will not market his grain freely below $1.00 per bushel.

The Cotton Situation.

The cotton situation is a very interesting one, owing to the political complications in which it is involved. From the outbreak of the war up to March last, Great Britain offered no objections to the shipment of cotton from the United States to Germany direct, but since proclaiming the blockade in March, has been stopping shipments even to neutral ports where there was reason to believe that the ultimate destination was Germany. Great Britain is understood to be willing to buy, in addition to her usual supplies, all of the cotton that Germany and Austria-Hungary usually take, and allow the usual supplies to go forward to Holland and the Scandinavian countries for their own consumption, if the controversy can be settled in that way, but while this might be satisfactory from a business

standpoint, it will not be acceptable to everybody as a determination of the rights involved.

The weekly report of the American Association of Commerce of Berlin for June 12th, gives some idea of the situation as to cotton in Germany. It says, in part:

"Under the pressure of England, Sweden has placed an embargo on the export of cotton, so that practically no cotton at all is being imported. In view of the limited supply on hand, the price of raw cotton has reached enormous limits, as in Bremen 30 cents per pound was asked on May 31, as against 20 to 22 cents before the conflict with Italy and about 12 cents before the war. Since the entrance of Italy into the war, cotton mills have increased their prices by about 25 per cent. Finished cotton goods have increased by at least 19 per cent, and as the stocks are rapidly diminishing, further increase in price is inevitable."

The usual takings of cotton by Germany and Austria-Hungary are about 2,700,000 bales, but much of this is used in manufactures for export, which next year presumably will be used elsewhere. The use of cotton in the manufacture of explosives is also a considerable factor. In the United States the consumption of lintners, which is the class of cotton used in making explosives was 54,683 bales in June, 1915, as against 26,993 bales in June, 1914.

Last year's big crop of over 16,000,000 bales has been handled quite successfully, all difficulties considered. Although considerable cotton was marketed early in the season around six cents per pound and even lower, the bulk of the crop brought seven and eight cents, and at the time when a large acreage reduction was predicted for the 1915 crop, fall deliveries sold up to eleven cents. The total amount of cotton brought into sight from August 1, 1914, to July 23, 1915, was 15,071,830 bales, of which 8,270,560 bales were exported, as against exports of 9,004,668 in the same period of the previous year. The total American mill takings, including Canada, have been 5,921,425 bales, as compared with 5,707,596 bales last year, and approximately 3,000,000 bales have been added to the stocks. The acreage reduction has been less than was expected last Winter, the government estimating it at 15 per cent., and the trade thinks this is full high enough. The crop has done surprisingly well up to this time, in view of the small amount of fertilizer used, probably because of unusually favorable weather conditions. However, the crucial period is now on and the yield may be anything from 12,000,000 to 14,000,000 bales.

The outlook for financing the crop from producers' hands is better than last year, for there is plenty of money in this country to handle it, if proper warehousing facilities are provided. Ordinarily, the requirements for the year are exported early in the season, it being cheaper to carry the staple abroad than here, but this year the foreign exchange situation is likely to delay the movement. Foreign buyers will probably protect themselves by storing cotton over here or by buying futures in this market.

There is agreement that the South has produced this crop on a lower basis of costs than usual, and it has also produced a much larger grain crop than ever before, and will be more nearly self-supporting for the coming year. It is said that the other crops of the South this year will surpass in value any cotton crop it has ever grown. Credit has been restricted and economy has been practiced, with the result that the South will come into possession of its crop this year with a smaller indebtedness against it than ever before. Altogether, considering the possible benefits of crop diversification in the future, it looks as though the South had turned a threatened calamity into a blessing, but it would prefer not to deal with any further adverse conditions at present.

Corn and Other Crops.

Corn is backward as the result of much wet weather, and will require favorable fall weather to make even a fair crop in the big corn states. The increased acreage in the South will make good some of the loss. The hay and forage crops are excellent, and the situation is thus much better than in the years where a short corn crop results from drought. The potato and other root crops are abundant, and on the whole the supply of food is such as to promise moderate prices to consumers for the coming year.

The farmers who fattened cattle for the Spring market of 1915 are said to have generally lost money, but they are apparently not averse to trying their luck again, for stock cattle and lambs are selling at very high figures. The abundance of pasture and forage crops explains the situation.

Western Range Conditions.

We are indebted to the First National Bank of Cheyenne for some interesting data upon present conditions upon the western ranges and certain beneficial changes that are being worked out in the wool industry, as follows:

Never in the history of the range cattle and sheep business have the grasses been better than this season. From the Canadian line to Mexico in the Rocky Mountain region, timely rains and good growing weather have been in fortunate combination. Live stock men are jubilant as to the prospects, not only for fat stock, but that prices will probably be well maintained, as the live stock business is stimulated by an extra foreign demand. The exports of fresh canned and cured beef for the months of March, April and May 1915 amounted to 94,165,847 pounds against 8,418,939 pounds in the same months of 1914.

The wool industry is undergoing important changes. For several years the most progressive men of the industry have been dissatisfied with certain customary methods in the handling of sheep and the marketing of wool which were evidently uneconomical and behind the practices known to be followed in Australia, a great competing country, and have labored to bring about better conditions.

That the industry was not on a satisfactory basis has been evident from the decline in the number of sheep in the country, which has become a matter of national concern.

At the beginning of the year 1914 an Australian wool expert, W. T. Ritch, was brought to this country at private expense to explain by free lectures to the Western sheepmen the advantages of the Australian method of shearing and classing wool, with the ultimate object of introducing Australian shearing sheds in this country. Last spring at the expense of two of the largest growers in this region, there was erected at Bitter Creek, Wyoming, the first complete Australian shearing shed to be erected in this country and although meeting with strenuous, prejudiced opposition the operation of this shed has met with convincing success.

Under the antiquated method which has been followed sheep are often so roughly handled and severely cut that a large number are lost on the drives to the summer ranges

from the usual community shearing pens. In some sections the handling has been so brutal that humane societies have taken steps to prevent it. As a rule, at the present miserable makeshifts, no shelter is provided for the sheep the first night after shearing.

The cost of shearing will be less under the new method than under the old, due to more efficient labor and the fact that system and order always bring better results with lessened cost. The difference in the freight rate from the intermountain region to Boston on wool packed under the Australian system is fifteen per cent. less than when packed in the loose wool sacks. The bales utilize all the space in the car.

The proper segregation of the different values at the source, the shearing sheds, means that the product is then ready for use and this of itself will enable the grower to obtain true market value soon after shearing.

The operation of many Australian shearing sheds will ultimately be followed by the establishment in this country of a system of auction sales which have proved so satisfactory and successful abroad. Until wool is prepared for use at the source it can be purchased only in a speculative way. Under the present pernicious method of contracting wool on the sheep's back months before it is shorn, or buying it in the old wool sacks when shorn, a blanket price is applied to the widely varying values of all the fleeces in a clip, and often one price is paid for all the clips in a locality.

The Australian system will encourage and, in fact, compel the better breeding of sheep and the elimination of sheep producing inferior wool. Students of our agricultural colleges and sheepmen's sons will have an opportunity, by working in these sheds, to learn more about wool than they can in any other way. This influence upon the sheep industry, as a whole, can hardly be estimated.

A close connection will be found between the Australian shearing shed and better sheep in greater numbers. It is the key that unlocks the door—the solution of a great national problem.

Importance of Warehouses.

The importance of proper warehousing facilities to the economical marketing of products was brought forcibly to the attention of the cotton states last year, and is emphasized now by the presence of the same conditions that existed then. It applies not only to cotton, but to all the crops; they are harvested in a few weeks, and must be carried and distributed over the year. The first consideration is the protection of the commodities from the weather, but along with this is the improvement in credit facilities. Given good public warehouses, so that the receipts for goods are absolutely trustworthy, and money can be had in abundance at the lowest rates available for any class of loans. Several states of the South have passed warehouse laws during the past year, and the work of creating facilities under them is under way.

The city of New Orleans, however, began several years ago a comprehensive scheme for making that city a great market for the staple products moving through that port in both the export and import trade. The city owns the water front and is constructing and will operate the warehouses, which are directly accessible both by rail and river, reducing transfer costs to the minimum. The municipality will own a belt line railroad, giving connection to all the railroads entering New Orleans at a uniform rate of $2 per car.

The cotton warehouse, now fast nearing completion, covers an area of 100 acres. The buildings are of reinforced concrete, and at the outset will have a capacity for handling 2,000,000 bales annually. The ultimate capacity will exceed 4,000,000 bales annually. Fire insurance companies have agreed to a rate on cotton stored therein of 15 cents per $100.

The manager of the warehouse and the employees who will operate the plant will be selected by a board representing the New Orleans Clearing House Association, the New Orleans Cotton Exchange, and the Board of Port Commissioners. In this way the Louisiana Legislature has safeguarded this state-owned port facility from political control or interference.

The warehouse will issue a warehouse receipt for each bale or lot and attached thereto will be a certificate issued by the Classification Department of the New Orleans Cotton Exchange, showing, under guarantee, the class, staple, character, condition and weight of each bale.

This plant will afford shipside storage, which cotton men say will be ideal. In it, at a primary point of export, surplus supplies of cotton may be carried, subject to instant needs of all consuming markets.

With such facilities as these, it is fair to expect that cotton will be carried in this country until wanted for consumption, and the margin of cost from producer to consumer will be reduced and stabilized.

General Business Conditions.

The industrial revival has now reached the stage where, with the additional impetus that may be expected from the marketing of a good crop, it should include nearly all lines, and assure a satisfactory state of general trade this fall. In some lines of production, particularly in branches of the steel industry, the point has been touched where more capacity is wanted, and the stimulus of orders for additional plant equipment is felt.

In the Pittsburgh district the iron and steel plants are now operating at 95 per cent. of their capacity. The Carnegie Steel Company has 46 furnaces in blast against 22 in January. The National Tube Company is operating 90 per cent. of its capacity, and its plant at Ellwood City is being doubled for the making of seamless tubes. At Youngstown the Republic Iron and Steel Company announces its plans for increasing its plant by the addition of two open hearth furnaces and two tube mills. These additions will represent an investment of about $1,000,000. The Brier Hill Steel Company, Youngstown, has also started to add to its plant another furnace to take care of increasing business. The McKeesport Tin Plate Company has placed a contract for the doubling of their plant at McKeesport, Pa. The United States Steel Corporation is expending $3,000,000 upon a new zinc smelter in the Pittsburgh district, as a result of the war demand for spelter. It has contracted for certain Australian ores that have been going to Germany. The American Smelting and Refining Company is building a tin smelter in New Jersey to handle the Bolivian ores. Heretofore these ores have gone to Europe for treatment, and bringing them here will create more dollar exchange in South America. The new and extensive works being constructed by the United Steel Corporation at Duluth will furnish an

important addition to the steel-making capacity of the country, and begin production by November. The earnings for the Steel Corporation for the second quarter were $27,950,000 as against $12,457,000 in the first quarter, and for the month of June were $11,343,000. *The Iron Age* estimates that 20 to 25 per cent. of the present volume of steel business is on war orders.

On account of the war business the activity in the steel industry at this time is not as significant of general business conditions as it usually is. These orders include not only what is strictly war material, but quantities of railway equipment for foreign governments, and the general export trade in steel has been helped by the congestion of war business in foreign works.

Although orders from the home railways are looking up a little, that branch of the iron and steel business is still much below normal, and the same is true of structural iron work. Building permits, reported to Bradstreet's from 148 cities, aggregated $395,000,000 in the first six months of 1915 against $440,000,000 in the same months of 1914. The window glass factories are closed down, but this is customary during the summer months. Some new interest is reported in export business, but the glass industry is having a quiet year.

The coal trade in the Pittsburgh district is not showing much gain and prices remain about the same. There have not been the usual shipments of coal to lake ports, although the shipments down the Ohio River are reported as being a little better. The coke trade is making a good recovery. At the present time in the Connellsville region there are 27,621 ovens in operation, with a total tonnage for last week of 371,144 tons, as against 17,342 ovens in blast the first week in January, with a tonnage of 202,497. Quotations for coke continue to advance, being at present around $1.75 to $2.00. The operators prefer to sell their coke for three months at a time, especially as indications point to a general advancing market. Quotations are being made on a sliding scale basis with, say, $1.75 minimum, with 20c. a ton raise for every dollar a ton that pig iron advances above its present level.

A semi-official report says that the June exports of bituminous coal reached a value of approximately $6,000,000, which compares with $3,688,790 in May last and $2,710,296 in May, 1914.

The demand for leather for army equipment is an important factor in the market. The exports of leather and leather goods in May last were $10,500,000 against $4,898,000 in May, 1914. The demand for the strictly domestic trade is light, and the shoe business is still quiet, particularly in the grades used by workingmen. Hides are 20 to 25 per cent. higher than a year ago.

In the textiles the hosiery mills are faring better than those making cloth. The National Association of Wool Manufactures reports about thirty per cent. of the machinery in that association idle on June 1st, notwithstanding some war orders, and the fact that the activity of foreign mills on war business has lessened their competition here. The present state of uncertainty as to the future of raw cotton puts the mills in a quandary and causes distributors to buy cautiously. On the whole, however, the cotton mills have been well employed in recent months. The total consumption of cotton in the United States for eleven months to June 30th last was 5,100,322 bales as against 5,177,740 bales in the same months of the previous year, and in recent months consumption has run ahead of a year ago.

The metal markets are all off a little from the highest prices, owing presumably to very heavy production. Copper is down to 18½ to 19 cents. Lead is weaker, but fluctuating wildly. Spelter has lost six or eight cents per pound from the top, but is still three or four times the normal price. There has been a shortage of smelting capacity for zinc ores, but all the discarded plants in the country are being brought back into production and two thoroughly modern plants are under construction. The mining industry in all lines is being highly stimulated and this is reflected in orders for mining machinery.

The ship-building industry is in a highly prosperous condition, old plants that have been idle for years are being put into commission, and important additions will be made to some leading yards.

The establishments manufacturing machine tools are still booking new orders for the future, and are far behind on deliveries. These tools enable manufacturers whose regular business is light to enter the munitions field.

Money is in abundant supply, and the offerings of commercial paper remain very light. Rates are unchanged.

The strained political relations between this country and Germany, although undoubtedly presenting a very serious situation, have little noticeable influence upon the business community, which is satisfied that neither government wants war with the other, and that some way will be found to avoid it. Apparently a definite agreement as to the terms of submarine warfare is impossible, but if in practice the German authorities avoid the exercise of the powers they claim, the issue may not be pressed.

War Orders and Labor Troubles.

The war order business is constantly increasing in volume, and its influence is extending. Contracts are being entered upon which require months for preparations and the completion of which will require all of 1916. It is evident that the industrial capacity of the country is being engaged to a degree that, while very helpful now, may prove embarrassing when the business comes to an end. Furthermore, the reports of large profits to be realized upon these contracts are calculated to make trouble with labor, which is awake to any opportunity to improve its position. It may be that the exigency which occasions these orders makes them unusually profitable, but any important change in wages is likely to affect not only war business, but all business in the same lines, and it would be unfortunate for the country, wage-earners with others, if the general level of costs in this country was raised to such an extent as to put us at a disadvantage in production when the war is over. There will be a general readjustment when international competition begins in earnest again, and everybody will be obliged to take account of world conditions.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS JULY 23, 1915.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	8,644	113,001	13,241	12 966	4.431	3,529	25,974	7,650	6,652	6,299	2,763	8,897	214,047
Gold Settlement Fund.....	7,707	10,151	1,671	4,256	3,212	1,304	9,329	1,657	1,187	3,611	3,998	367	48,450
Gold Redemption Fund...	6	55	37	17	300	225		35	30	37	313	21	1,076
Total gold reserves..	16,357	123,207	14,949	17,239	7,943	5,058	35,303	9,342	7,869	9,947	7,074	9,285	263,573
Legal tender notes, Silver certif's and Sub. coin....	170	16,301	3.027	1.024	130	340	2.989	846	4	493	568	21	25,913
Total Reserves......	16,527	139,508	17,976	18,263	8,073	5,398	38,292	10,188	7,873	10,440	7,642	9,306	289,486
Bills discounted and Loans Commercial paper	368	585	727	699	8,313	4,745	1,537	936	1,506	1,104	6,629	1,936	29,085
Bank acceptances.........	2,097	5.103	1.467	201			348	189	166	353		414	10,338
Total................	2,465	5.688	2,194	900	8,313	4.745	1,885	1,125	1,672	1,457	6,629	2,350	39,423 c)
Investment U. S. Bonds.			340	660			3,725	242	1,025	930		1,001	7,923
Municipal Warrants.....	2,404	5,160	1,631	1,539			1,770	620	496	454		1,036	15,110
Due from other F.R. Banks net..........			427	1,166	623	303	2,996		54	371	152	1,301	5.229(b)
Federal Reserve Notes, net	453	4,584	58	308			2,353	107	183			1,181	9,227
All other resources........	301	161	696	341	158	77	142	2,194		535	22	81	4,765
TOTAL RESOURCES.....	22,150	155,101	23,322	23.177	17.167	10,523	51,163	14.476	11,360	14,187	14,445	16,256	371,163
LIABILITIES													
Capital Paid in............	4.802	10.812	5,376	5,951	3,361	2,414	6,610	2,794	2,423	2,946	2,758	3,923	54,170
Reserve Deposits, net.....	17,063	141,409	17,946	17,226	7,950	5,219	44,553	11,463	8,937	10,901	6,063	12,333	301,063
Due to other F. R. Banks net (b)................	285	1,660						219					
Federal Reserve notes in circulation—Net Amt....					5,757	2,837				340	5,587		14,521(a)
All other Liabilities........		1,220			99	53					37		1,409
TOTAL LIABILITIES.....	22,150	155,101	23,322	23,177	17,167	10,523	51,163	14,476	11,360	14,187	14,445	16,256	371,163

(a) Total Reserve notes in circulation, 83,420. After deducting gold and lawful money in hands of Federal Reserve Agents, 68,899 for retirement of outstanding notes, the net liabilities of Reserve Banks upon outstanding notes, amount to 14,521.
(b) After deduction of items in transit between Federal Reserve Banks, 5,229, the Gold Reserve against Net Liabilities is 84.9% and the cash reserve is 93.3%. Cash Reserve against liabilities after setting aside 40% Gold Reserve against net amount of Federal Reserve Notes in circulation, 96.6%.
(c) Maturities of bills discounted and loans: 30 days, 11,956; 60 days, 12,815; other maturities, 14,652; Total: 39,423.

Withdrawal of Government Deposits.

The Secretary of the Treasury on July 27 announced that he would withdraw $3,079,500 of government deposits from National banks between August 10 and August 25. It is understood this policy will be gradually continued until all government deposits, which now amount to $50,154,989.17, have been removed from National banks. Moneys withdrawn will be transferred to the Sub-Treasuries, and ultimately will find their way into Federal Reserve banks, which will become the fiscal agents of the government in practically all matters in which National banks heretofore have served.

Trade Acceptances.

The Federal Reserve Board on July 16 issued circular No. 16 and Regulation P, series of 1915, which cover bills of exchange drawn against sales of goods and accepted by purchasers. This class of paper will be known as "Trade Acceptances" and will be favored for discount at a rate somewhat lower than that applicable to other commercial paper. It is believed by the Federal Reserve Board that the scope of the service of the Federal Reserve banks will be considerably enlarged, and that a broader market for double named paper will be developed in this country. The regulation referring to "Trade Acceptances" is printed in full as follows:—

FEDERAL RESERVE BOARD REGULATION.

Washington, July 15, 1915.

"TRADE ACCEPTANCES."

I. DEFINITION.

Regulation P.

In this regulation the term "trade acceptance" is defined as a bill of exchange of the character hereinafter described, drawn to order, having a definite maturity and payable in dollars in the United States, the obligation to pay which has been accepted by an acknowledgment, written or stamped, and signed, across the face of the instrument by the company, firm, corporation, or person upon whom it is drawn; such agreement to be to the effect that the acceptor will pay at maturity, according to its tenor, such draft or bill without qualifying conditions.

II. CHARACTER OF PAPER ELIGIBLE.

A trade acceptance to be eligible for rediscount, under section 13, with a Federal Reserve Bank at the rate to be established for trade acceptances

(*a*) Must be indorsed by a member bank, accompanied by waiver of demand notice and protest.
(*b*) Must have a maturity at the time of discount of not more than 90 days.
(*c*) Must be accepted by the purchaser of goods sold to him by the drawer of the bill, and the bill must have been drawn against indebtedness expressly incurred by the acceptor in the purchase of such goods.

III. METHOD OF CERTIFYING ELIGIBILITY.

A trade acceptance must bear on its face, or be accompanied by, evidence in form satisfactory to the Federal Reserve Bank, that it was drawn by the seller of the goods on the purchaser of such goods. Such evidence may consist of a certificate on or accompanying the acceptance, to the following effect: "The obligation of the acceptor of this bill arises out of the purchase of goods from the drawer." Such certificate may be accepted by the Federal Reserve Bank as sufficient evidence; provided, however, that the Federal Reserve Bank, in its discretion, may inquire into the exact nature of the transaction underlying the acceptance.

CHARLES S. HAMLIN, *Governor.*

H. PARKER WILLIS, *Secretary.*

New Orleans Branch of the Federal Reserve Bank.

Mr. P. H. Saunders, Mr. Albert P. Bush, and James E. Zunts have been elected directors of the new Federal Reserve Bank at New Orleans.

Redemption of Federal Reserve Notes.

On July 6 the Federal Reserve Board issued Regulation O, series of 1915, for the guidance of Federal Reserve agents in the matter of issuance and redemption of Federal Reserve notes. This regulation describes in detail the steps necessary to secure or decrease outstanding circulation of Federal Reserve notes.

The Federal Reserve Bank may reduce its liability on account of the outstanding Federal Reserve notes by depositing its own notes, or gold certificates, or lawful money of the United States, to the amount of the notes it desires to retire, less a ratable proportion of the amount of money standing to its credit in the gold redemption fund with the Treasurer of the United States. The bank may exchange notes that are unfit for circulation, or notes of one denomination for those of another. Accumulated Federal Reserve notes unfit for circulation may be shipped to the Division of Federal Reserve Note Redemption in the office of the Comptroller of Currency at Washington, D. C.

Notes of one Federal Reserve Bank received by another, if fit for circulation shall be immediately returned to the issuing bank for credit or redemption. If, however, the notes are unfit for circulation, the issuing bank will be advised of the amount and the notes shall be delivered to the local Federal Reserve agent who will forward them to the Treasury Department for credit, or for the issue of the new notes to replace the unfit notes. All transactions in these respects must be reported immediately to the Federal Reserve Board.

GOLD RESERVE.

Among the most important items in the regulation is the following with reference to the gold reserve held by Federal Reserve Banks against Federal Reserve notes issued:

"If at any time the gold reserve required by law to be held by a Federal Reserve Bank against Federal reserve notes issued to it falls below 40 per cent. (including therein the gold redemption fund required to be maintained in the Treasury) the Federal Reserve Agent shall at once notify the Federal Reserve Board, and thereupon until otherwise directed by the Federal Reserve Board, a graduated tax upon such deficiency as provided in section 11 of the Federal Reserve Act shall be established and shall be computed for the present as follows:

When reserves fall below 40 per cent. but are in excess of 32½ per cent., the tax upon the deficiency shall be at the rate of 1 per cent. per annum:

When reserves fall below 32½ per cent. but are in excess of 30 per cent., the tax upon the entire deficiency below 40 per cent., shall be at the rate of 2½ per cent. per annum:

When reserves fall below 30 per cent. but exceed 27½ per cent., the tax upon the entire deficiency below 40 per cent. shall be at the rate of 4 per cent. per annum; and so on, increasing at the rate of 1½ per cent. with each reduction in reserve amounting to 2½ per cent. or any fraction thereof. This is otherwise expressed in the following table:

Gold reserves against Federal reserve notes.	Penalty tax on deficiency in reserves.
40 per cent. (legal minimum including redemption fund	No penalty.
37½ up to 40 per cent.	1 per cent.
35 up to 37½ per cent.	1 per cent.
32½ up to 35 per cent.	1 per cent.
30 up to 32½ per cent.	2½ per cent.
27½ up to 30 per cent.	4 per cent.
25 up to 27½ per cent.	5½ per cent.
22½ up to 25 per cent.	7 per cent.
20 up to 22½ per cent.	8½ per cent.
17½ up to 20 per cent.	10 per cent.
15 up to 17½ per cent.	11½ per cent.
12½ up to 15 per cent.	13 per cent.
10 up to 12½ per cent.	14½ per cent.
7½ up to 10 per cent.	16 per cent.
5 up to 7½ per cent.	17½ per cent.
2½ up to 5 per cent.	19 per cent.
0 to 2½ per cent.	20½ per cent."

The remainder of the circular deals almost entirely with the detail of reports to be furnished.

Statement from Borrowers.

The troublesome problem of how to restrict the discount facilities of the Federal Reserve Banks to strictly current commercial needs came up again last month. Last January the Federal Reserve Board postponed until July 15th the enforcement of the rule requiring that statements as to the purpose for which money was borrowed to accompany all rediscounts and when the time expired something had to be done about it. The Board has modified the requirements so that borrowers, the aggregate of whose paper actually rediscounted does not exceed $5,000, or ten per cent. of this paid-up capital of the business are exempt, and all two-name paper is exempt. The latter provision is another evidence of the inclination of the Board to favor the use of the trade acceptance.

Postal Savings Deposits.

It is said that the annual report of the Postmaster General will show an increase of over $22,000,000 in postal savings deposits over last year; the postal savings deposits now amount to about $65,000,000. Last year there were 388,551 depositors; at the present time there are upwards of 530,000. Approximately forty per cent. of the depositors are foreign born citizens, and they own more than fifty per cent. of the deposits.

The issue of 2½% Postal Savings bonds in January, 1915, amounted to $933,000; on July 1 the amount was $865,500.

Discount Rates.

Discount rates in effect at Federal Reserve Banks July 29th, 1915.

BANK.	Last Change	MATURITIES				Agricultural and live-stock paper.
		10 days and less.	over 10 days to 30 days, inclusive.	over 30 to 60 days, inclusive.	over 60 to 90 days, inclusive.	
Boston	July 3	3	4	4	4½	5
New York	June 25	3	4	4	4	5
Philadelphia	do	3	4	4	4½	5
Cleveland	Feb. 6		4	4	4½	5
Richmond	June 25		4	4	4½	5
Atlanta	Apr. 30		4	4	4½	5
Chicago	Jan. 23		4	4	4½	5
St. Louis	June 25	3	4	4	4½	5
Minneapolis	May 18		4	4	5	5
Kansas City	June 18		4	4	4½	5
Dallas	Feb. 4		4	4	4½	5
San Francisco	June 25	3	3½	4	4½	6

Authorized rate of acceptances, 2 to 4 per cent. for all districts except Richmond, Atlanta, Dallas.

On March 10, the Federal Reserve Board fixed the following rates for rediscounts between Federal Reserve Banks; 3½ per cent. for maturities of 30 days and less; 4 per cent. for maturities of over 30 days to 90 days inclusive.

On July 22, the Federal Reserve Board approved a rate of 3½ per cent. for rediscount of trade acceptances at the Federal Reserve Bank of New York.